

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: CORNERSTONE ENERGY, INC., f/k/a APPLIED ENERGY SOLUTIONS, INC.	DOCKET NO. CGP-02-4
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ORDER APPROVING APPLICATION AND ISSUING CERTIFICATE

(Issued September 26, 2002)

On June 18, 2002, Applied Energy Solutions, Inc. (AES), filed an application with the Utilities Board (Board) for certification as a competitive natural gas provider (CNGP). Subsequently, AES indicated that it had changed its corporate name to Cornerstone Energy, Inc. (Cornerstone), and would be conducting business in Iowa as Cornerstone. Cornerstone proposes to provide competitive natural gas service to large and small volume customers as defined in 199 IAC 19.14(1). Cornerstone is a Nebraska subchapter "S" corporation and has obtained a certificate of authority to conduct business in Iowa from the Iowa Secretary of State.

The Board's rules at 199 IAC 2.2(18) and 19.14 establish the filing requirements for the issuance of a certificate. On June 25, 2002, the Board notified Cornerstone that there were deficiencies in the application. Cornerstone filed additional information on August 26, 2002, August 29, 2002, and September 4, 2002. By letter dated September 4, 2002, Cornerstone was notified that its application was complete and that the review process timeline would begin.

Iowa Code § 476.87 requires that a competitive natural gas provider must reasonably demonstrate managerial, technical, and financial capability sufficient to obtain and deliver the services it proposes to offer. The Board in 199 IAC 2.2(18) and 19.14 established the requirements necessary to determine the managerial, technical, and financial capabilities of the applicant.

Cornerstone states that it is in the process of acquiring the competitive natural gas business currently belonging to Aquila, Inc. Definitive agreements governing this transaction were executed on August 9, 2002, with a prescribed closing date of September 30, 2002. On that date, Cornerstone will become the successor in interest of Aquila's competitive natural gas business in seven Midwestern states, including Iowa, and will be required to honor the contractual obligations pursuant to that business.

Cornerstone's application contains the professional background information for its principal managerial and technical personnel. The five principals and all employees of Cornerstone are currently employees of Aquila, Inc. The principals of Cornerstone include the directors of the business units that managed and operated Aquila's retail gas transportation function for the past several years.

Paragraph 6 of the application requires CNGPs who will serve small volume customers to submit specific financial information. Cornerstone included this information in its application. Cornerstone indicates that it has teamed with Virginia Power Energy Marketing, Inc. (Virginia Power), a wholly-owned subsidiary of

Dominion Resources, which has \$34 billion in assets. Virginia Power and Cornerstone entered into an “Energy Marketing Agreement for Natural Gas.” A key term of this agreement is that Dominion will provide Cornerstone with \$5 million of corporate guarantees.

Cornerstone expressed its commitment to comply with all applicable conditions of certification contained in 199 IAC 19.14(5) and (6). Cornerstone also acknowledged that failure to comply with all applicable conditions may result in the revocation of its certificate.

Based upon the information provided, the Board finds that Cornerstone's staff possesses extensive knowledge of and experience in various areas of the natural gas industry including marketing of natural gas service. The Board finds that Cornerstone has reasonably demonstrated that it possesses the financial backing to provide the service it proposes to offer and has reasonably demonstrated the managerial, technical, and financial capability sufficient to obtain and deliver competitive natural gas services to small and large volume customers. Since the financial support for Cornerstone is provided by Virginia Power, the Board expects Cornerstone to notify the Board of any material change in the financial support provided by Virginia Power as required by 199 IAC 19.14(3).

The Board finds that Cornerstone's application complies with the filing requirements of Board rules and that Cornerstone will be issued a CNGP certificate

to provide competitive natural gas service to small and large volume customers. The Board finds that no conditions should be placed on the certificate.

Concurrently with the issuance of this order, the Board will issue a certificate identified as Certificate No. G-0016 to Cornerstone. Cornerstone will be subject to the reporting requirements contained in 199 IAC 19.14(5)"c" once the certificate is issued and the notification requirements of 199 IAC 19.14(3).

IT IS THEREFORE ORDERED:

1. The application for a certificate as a competitive natural gas service provider in Iowa filed by Cornerstone Energy, Inc., f/k/a Applied Energy Solutions, Inc., on June 18, 2002, is approved.
2. Cornerstone Energy, Inc., shall comply with the filing requirements of 199 IAC 19.14(5) and the notification requirements of 199 IAC 19.14(3).
3. Certificate No. G-0016 shall be issued to Cornerstone Energy, Inc.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 26th day of September, 2002.